

Ball Memorial Hospital
Blackford Community Hospital

**CARDINAL HEALTH SYSTEM, INC.
AND SUBSIDIARIES**
MUNCIE, INDIANA

CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2007 AND 2006

Blackford Co Hosp.
12-4-07

INDEPENDENT AUDITORS' REPORT

Board of Directors
Cardinal Health System, Inc.
Muncie, Indiana

We have audited the accompanying consolidated balance sheet of Cardinal Health System, Inc. and Subsidiaries as of June 30, 2007 and 2006, and the related consolidated statements of operations, and cash flows for the years then ended. These financial statements are the responsibility of management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with U.S. generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Cardinal Health System, Inc. and Subsidiaries as of June 30, 2007 and 2006, and the results of their operations, changes in their net assets, and their cash flows for the years then ended in conformity with U.S. generally accepted accounting principles.

Whitinger & Company LLC

Certified Public Accountants

November 13, 2007

FINANCIAL STATEMENTS

1.

CARDINAL HEALTH SYSTEM, INC. AND SUBSIDIARIES**CONSOLIDATED BALANCE SHEET**
JUNE 30, 2007 AND 2006

	<u>2007</u>	<u>2006</u>
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	\$ 8,575,294	\$ 7,638,217
Short-term investments	\$ 1,350	\$ 1,350
Accounts receivable, patients	\$ 115,631,373	\$ 108,167,519
Allowances for:		
Contractual adjustments	(51,935,813)	(46,385,886)
Uncollectibility	(14,465,846)	(13,369,846)
Net Accounts Receivable, Patients	\$ 49,229,714	\$ 48,411,787
Accounts receivable, other	\$ 8,984,050	\$ 5,474,356
Inventories	\$ 6,779,517	\$ 6,715,777
Prepaid expenses	\$ 5,891,689	\$ 3,079,257
Total Current Assets	\$ 79,460,264	\$ 71,320,744
PROPERTY AND EQUIPMENT		
Sites and grounds	\$ 11,812,978	\$ 11,641,603
Buildings	205,913,422	189,679,342
Equipment	155,111,451	149,509,411
Construction in progress	33,092,227	24,600,911
Total Property and Equipment	\$ 405,930,078	\$ 375,431,267
Less accumulated depreciation	(208,829,323)	(196,515,123)
Net Property and Equipment	\$ 197,100,755	\$ 178,916,144
ASSETS LIMITED AS TO USE		
Investments at market: (Notes 2)		
Note Retirement Funds	\$ 50,781,360	\$ 67,913,640
Board Designated Fund	38,865,429	40,780,041
Total Assets Limited As To Use	\$ 89,646,789	\$ 108,693,681
DONOR RESTRICTED ASSETS (Note 2)	\$ 18,381,571	\$ 17,252,350
UNRESTRICTED INVESTMENTS	\$ 23,093,792	\$ 18,892,125
OTHER		
Investment in VHA stock, at cost	\$ 134,250	\$ 134,250
Other investments, at cost (Note 2)	19,026,533	21,866,411
Notes receivable	5,496	8,190
Deferred bond issue costs - net of amortization of \$771,723 in 2007, \$639,583 in 2006 (Note 1)	2,445,836	2,577,976
Annuity contracts purchased	1,284,342	974,838
Goodwill	180,000	180,000
Total Other	\$ 23,076,457	\$ 25,561,665
Total Assets	\$ 430,759,628	\$ 420,636,709

See accompanying Notes to Consolidated Financial Statements.

	2007	2006
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES		
Current portion of long-term debt	\$ 6,474,909	\$ 4,980,282
Accounts payable:		
Trade	\$ 14,102,432	\$ 13,148,550
Cost report settlements, Medicare and Medicaid (Note 1)	(813,779)	988,791
Total Accounts Payable	\$ 13,288,653	\$ 14,137,341
Accrued compensation	\$ 5,072,728	\$ 4,735,810
Accrued other expenses	\$ 18,081,784	\$ 12,959,674
Total Current Liabilities	\$ 42,918,074	\$ 36,813,107
LONG-TERM DEBT (Note 3)		
Notes payable, Hospital Authority of Delaware County:		
Series 1997	\$ 14,475,000	\$ 15,605,000
Series 1998	33,500,000	36,900,000
Series 2006	78,565,000	78,565,000
Capital lease obligations	4,124,420	1,920,121
Mortgage and other loans payable	12,742,752	14,064,321
Total	\$ 143,407,172	\$ 147,054,442
Less Current Portion	(6,474,909)	(4,980,282)
Long-Term Debt Net of Current Portion	\$ 136,932,263	\$ 142,074,160
OTHER LIABILITIES		
Post-retirement health benefits (Note 7)	\$ 3,225,851	\$ 4,950,000
Post-employment benefits	3,893,607	2,886,767
Liability for pension benefits under FASB 158 (Note 6)	32,000,887	
	\$ 39,120,345	\$ 7,836,767
Total Liabilities	\$ 218,970,682	\$ 186,724,034
MINORITY INTEREST		
	\$ 899,761	\$ 681,590
NET ASSETS		
Unrestricted	\$ 192,049,359	\$ 214,775,294
Temporarily restricted	4,469,906	3,913,990
Permanently restricted	14,369,920	13,873,854
Retained earnings of for-profit entities		667,947
Total Net Assets	\$ 210,889,185	\$ 233,231,085
Total Liabilities and Net Assets	\$ 430,759,628	\$ 420,636,709

CARDINAL HEALTH SYSTEM, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENT OF OPERATIONS FOR THE YEAR ENDED JUNE 30, 2007

	2007			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
REVENUES, GAINS, AND OTHER SUPPORT				
Net patient service revenue (Note 1)	\$ 312,904,114			\$ 312,904,114
Other operating revenue	22,812,225	\$ 1,298,256	\$ 496,066	24,606,547
	<u>\$ 335,716,339</u>	<u>\$ 1,298,256</u>	<u>\$ 496,066</u>	<u>\$ 337,510,661</u>
Net assets released from restrictions	742,340	(742,340)		
Total Revenues, Gains, and Other Support	<u>\$ 336,458,679</u>	<u>\$ 555,916</u>	<u>\$ 496,066</u>	<u>\$ 337,510,661</u>
EXPENSES				
Salaries and wages	\$ 121,014,641			\$ 121,014,641
Fringe benefits	35,778,571			35,778,571
Other operating expenses	141,681,635			141,681,635
Depreciation	19,901,905			19,901,905
Bad debts	22,152,070			22,152,070
Interest	5,778,666			5,778,666
	<u>\$ 346,307,488</u>			<u>\$ 346,307,488</u>
EXCESS (DEFICIENCY) OF REVENUES, GAINS, AND OTHER SUPPORT OVER EXPENSES	\$ (9,848,809)	\$ 555,916	\$ 496,066	\$ (8,796,827)
CHANGE IN NET UNREALIZED GAINS ON INVESTMENTS	1,945,075			1,945,075
OTHER INCOME AND EXPENSE - NET	16,991,918			16,991,918
INCREASE (DECREASE) IN NET ASSETS BEFORE MINORITY INTEREST	\$ 9,088,184	\$ 555,916	\$ 496,066	\$ 10,140,166
LESS MINORITY INTEREST	481,179			481,179
INCREASE IN NET ASSETS BEFORE THE EFFECT OF THE ADOPTION OF FASB STATEMENT NO. 158	\$ 8,607,005	\$ 555,916	\$ 496,066	\$ 9,658,987
EFFECT OF ADOPTION OF FASB STATEMENT NO. 158	(32,000,887)			(32,000,887)
NET ASSETS AT BEGINNING OF YEAR	215,443,241	3,913,990	13,873,854	233,231,085
NET ASSETS AT END OF YEAR	<u>\$ 192,049,359</u>	<u>\$ 4,469,906</u>	<u>\$ 14,369,920</u>	<u>\$ 210,889,185</u>

See accompanying Notes to Consolidated Financial Statements.

CARDINAL HEALTH SYSTEM, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENT OF OPERATIONS FOR THE YEAR ENDED JUNE 30, 2006

	2006			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
REVENUES, GAINS, AND OTHER SUPPORT				
Net patient service revenue (Note 1)	\$ 338,130,493			\$ 338,130,493
Other operating revenue	21,948,653	\$ 1,330,190	\$ 398,139	23,676,982
	<u>\$ 360,079,146</u>	<u>\$ 1,330,190</u>	<u>\$ 398,139</u>	<u>\$ 361,807,475</u>
Net assets released from restrictions	2,379,451	(2,379,451)		
Total Revenues, Gains, and Other Support	<u>\$ 362,458,597</u>	<u>\$ (1,049,261)</u>	<u>\$ 398,139</u>	<u>\$ 361,807,475</u>
EXPENSES				
Salaries and wages	\$ 125,404,464			\$ 125,404,464
Fringe benefits	37,455,771			37,455,771
Other operating expenses	146,718,013			146,718,013
Depreciation	20,406,398			20,406,398
Bad debts	28,433,282			28,433,282
Interest	2,882,447			2,882,447
	<u></u>	<u></u>	<u></u>	<u></u>
Total Expenses	<u>\$ 361,300,375</u>	<u></u>	<u></u>	<u>\$ 361,300,375</u>
EXCESS (DEFICIENCY) OF REVENUES, GAINS, AND OTHER SUPPORT OVER EXPENSES	\$ 1,158,222	\$ (1,049,261)	\$ 398,139	\$ 507,100
CHANGE IN NET UNREALIZED GAINS ON INVESTMENTS	(3,089,766)			(3,089,766)
OTHER INCOME AND EXPENSE - NET	4,446,591			4,446,591
INCREASE IN NET ASSETS BEFORE MINORITY INTEREST	\$ 2,515,047	\$ (1,049,261)	\$ 398,139	\$ 1,863,925
LESS MINORITY INTEREST	32,036			32,036
INCREASE (DECREASE) IN NET ASSETS	\$ 2,483,011	\$ (1,049,261)	\$ 398,139	\$ 1,831,889
NET ASSETS AT BEGINNING OF YEAR	212,330,582	4,963,251	14,105,363	231,399,196
RECLASSIFICATION	629,648		(629,648)	
NET ASSETS AT END OF YEAR	<u>\$ 215,443,241</u>	<u>\$ 3,913,990</u>	<u>\$ 13,873,854</u>	<u>\$ 233,231,085</u>
RECAP OF UNRESTRICTED NET ASSETS				
Not-for-profit entities	\$ 214,775,294			
For-profit entities	667,947			
	<u>\$ 215,443,241</u>			

See accompanying Notes to Consolidated Financial Statements.

CARDINAL HEALTH SYSTEM, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENT OF CASH FLOWS FOR THE YEARS ENDED JUNE 30, 2007 AND 2006

INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS

	2007	2006
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash received from patients	\$ 354,783,486	\$ 370,818,791
Investment income	2,950,453	5,276,125
Cash paid to suppliers and employees	(345,191,615)	(351,960,743)
Interest paid	(5,710,943)	(2,882,447)
Income taxes (paid) refunded	9,517	6,802
Cash received from rental activities	2,929,715	3,216,719
Unrestricted contributions received	2,031,142	3,844,166
Net Cash Provided By Operating Activities	<u>\$ 11,801,755</u>	<u>\$ 28,319,413</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of property and equipment	\$ (39,018,300)	\$ (39,960,102)
Proceeds from sale of property and equipment	6,246,232	4,385,236
Proceeds from sale of investments	98,638,900	55,434,390
Payments received on notes receivable	526	2,140
Purchase of annuity	(309,504)	(237,201)
Purchase of investments	(72,974,547)	(123,696,807)
Purchase bond issue costs		(1,723,862)
Net Cash Used By Investing Activities	<u>\$ (7,416,693)</u>	<u>\$ (105,796,206)</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from borrowings	\$ 2,568,944	\$ 84,809,486
Principal payments on borrowings	(5,865,186)	(7,946,514)
Restricted contributions and income received	496,066	398,139
Cash distributions to owners	(647,809)	
Net Cash Provided (Used) By Financing Activities	<u>\$ (3,447,985)</u>	<u>\$ 77,261,111</u>
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	<u>\$ 937,077</u>	<u>\$ (215,682)</u>
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	<u>7,638,217</u>	<u>7,853,899</u>
CASH AND CASH EQUIVALENTS AT END OF YEAR	<u><u>\$ 8,575,294</u></u>	<u><u>\$ 7,638,217</u></u>

See accompanying Notes to Consolidated Financial Statements.

CARDINAL HEALTH SYSTEM, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENT OF CASH FLOWS FOR THE YEARS ENDED JUNE 30, 2007 AND 2006

RECONCILIATION OF INCREASE IN NET ASSETS TO NET CASH PROVIDED BY OPERATING ACTIVITIES

	2007	2006
INCREASE IN NET ASSETS	<u>\$ 9,658,987</u>	<u>\$ 1,831,889</u>
ADJUSTMENTS TO RECONCILE INCREASE IN NET ASSETS TO NET CASH PROVIDED BY OPERATING ACTIVITIES		
Depreciation	\$ 19,901,905	\$ 20,406,398
Amortization	132,140	79,467
Restricted contributions and income received	(521,426)	(448,859)
Partnership income	720,173	(344,766)
(Gain) loss on disposal of assets	(5,983,946)	1,078,149
Gain on sale of investments	(430,394)	(3,291,447)
Unrealized (gain) loss on securities	(1,945,075)	3,089,766
	<u>\$ 11,873,377</u>	<u>\$ 20,568,708</u>
Changes in assets:		
Accounts receivable	\$ (817,927)	\$ 334,222
Other receivables	(7,416,470)	(1,371,888)
Inventories	(63,740)	1,122,319
Accrued interest		47,527
Prepaid expenses	(3,690,933)	1,112,393
Prepaid pension and annuity expense		904,815
	<u>\$ (11,989,070)</u>	<u>\$ 2,149,388</u>
Changes in liabilities:		
Accounts payable	\$ (953,699)	\$ 2,521,110
Cost report settlements	(1,802,570)	(852,603)
Accrued expenses	5,014,730	2,100,921
	<u>\$ 2,258,461</u>	<u>\$ 3,769,428</u>
NET CASH PROVIDED BY OPERATING ACTIVITIES	<u><u>\$ 11,801,755</u></u>	<u><u>\$ 28,319,413</u></u>

See accompanying Notes to Consolidated Financial Statements.

CARDINAL HEALTH SYSTEM, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Purpose

The Corporations were organized primarily to provide acute care hospital and other medical related services to residents in East Central Indiana.

Principles of Consolidation

The financial statements include the consolidated accounts of Cardinal Health System, Inc., and its affiliated not-for-profit corporations, for-profit corporations, and limited liability companies. All significant inter-company transactions and accounts have been eliminated.

Charity Care

Ball Memorial Hospital, Inc. and Blackford Community Hospital, Inc. provide care to patients who meet certain criteria under their charity care policies without charge or at amounts less than their established rates. Because the Hospitals do not pursue collection of amounts determined to qualify as charity care, they are not reported as revenue. The Hospitals maintain records to identify and monitor the level of charity care provided. These records include the amount of charges foregone for services and supplies furnished under the charity care policy. Total charity care for the years ended June 30, 2007 and 2006, approximated \$33,601,000 and \$27,644,057, respectively.

Net Patient Service Revenue

Net patient service revenue is reported at the estimated net realizable amounts from patients, third-party payors, and others for services rendered, including estimated retroactive adjustments under reimbursement agreements with third-party payors. Retroactive adjustments are accrued on an estimated basis in the period the related services are rendered and adjusted in future periods, as final settlements are determined.

Net patient service revenue consisted of the following:

	2007	2006
Operating revenue from services to patients		
Inpatients	\$ 372,014,857	\$ 343,434,259
Outpatients	372,857,382	381,551,801
	<u>\$ 744,872,239</u>	<u>\$ 724,986,060</u>
Less Medicare, Medicaid, and other contractual adjustments	<u>(410,708,942)</u>	<u>(386,855,567)</u>
Net patient service revenue	<u>\$ 334,163,297</u>	<u>\$ 338,130,493</u>

CARDINAL HEALTH SYSTEM, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Ball Memorial Hospital, Inc., Blackford Community Hospital, Inc. and other affiliated entities have agreements with third-party payors that provide for payments at amounts different from the established rates.

Laws and regulations governing the Medicare program are extremely complex and subject to interpretation. As a result, there is at least a reasonable possibility that recorded estimates will change by a material amount in the near-term.

A summary of the payment arrangements with major third-party payors follows:

Ball Memorial Hospital, Inc. and Blackford Community Hospital, Inc.

Medicare

Inpatient acute care services rendered to Medicare program beneficiaries are paid at prospectively determined rates per discharge. These rates vary according to a patient classification system that is based on clinical, diagnostic, and other factors. Outpatient services to Medicare beneficiaries are paid prospectively by a classification system based on clinical factors or by fee schedule. Defined capital is reimbursed based on prospective rates and medical education is reimbursed based on rates determined by the Centers for Medicare and Medicaid Services. The hospitals are reimbursed for cost reimbursable items at a tentative rate with final settlement determined after submission of annual cost reports by the hospital and audits thereof by the Medicare fiscal intermediary. Ball Memorial Hospital, Inc. and Blackford Community Hospital, Inc. Medicare cost reports have been audited through June 30, 2005.

Medicaid

The hospitals are reimbursed for outpatient services rendered to the Medicaid program beneficiaries based on fee schedules for outpatient services. The hospitals are reimbursed for inpatient services rendered to Medicaid program beneficiaries at rates that vary according to a patient classification system that is based on clinical, diagnostic, and other factors.

Other Carriers

Ball Memorial Hospital, Inc. has also entered into payment agreements with certain commercial carriers and a preferred provider organization. The basis for payment to the hospital under these agreements is based primarily on prospectively determined rates per discharge or a discounted rate of the hospital established charge structure.

At June 30, 2007 and 2006, Ball Memorial Hospital, Inc. and Blackford Community Hospital, Inc. receivables included approximately \$53,000,000 and \$49,000,000, respectively, from the Medicare and Medicaid programs. For the years ended June 30, 2007 and 2006, the hospitals received approximately 47% and 52%, respectively, of their revenue from these programs at approximately 32% and 36%, respectively, of their normal charge.

CARDINAL HEALTH SYSTEM, INC. AND SUBSIDIARIES**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS****1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)*****Cardinal Health Partners, LLC and Health Care Connections, Inc.***

Services provided to Medicare and Medicaid program beneficiaries are reimbursed on established fee schedules and rates. Agreements with certain commercial carriers and a preferred provider organization provide for payments for services rendered based primarily on prospectively determined rates.

Inventories

Inventories are stated at the lower of cost, on the first-in/first-out method, or market.

Use of Estimates

The preparation of financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Assets Limited as to Use

Assets limited as to use primarily include assets held by trustees under indenture agreements, sinking funds to be used for debt retirement, and designated assets set aside by the Board of Directors for future capital improvements, over which the Board retains control and may, at its discretion, subsequently use for other purposes.

Property and Equipment

Property and equipment acquisitions are recorded at cost. Depreciation is provided over the estimated useful life of each class of depreciable asset and is computed using the straight-line method. Equipment under capital lease obligations is amortized on the straight-line method over the shorter period of the lease term or the estimated useful life of the equipment. Such amortization is included in depreciation and amortization in the financial statements. Interest cost incurred on borrowed funds during the period of construction of capital assets is capitalized as a component of the cost of acquiring those assets.

Gifts of long-lived assets such as land, buildings, or equipment are reported as unrestricted support, and are excluded from the excess of revenues, gains, and other support over expenses, unless explicit donor stipulations specify how the donated assets must be used. Gifts of long-lived assets with explicit restrictions that specify how the assets are to be used and gifts of cash or other assets that must be used to acquire long-lived assets are reported as restricted support. Absent explicit donor stipulations about how long those long-lived assets must be maintained, expirations of donor restrictions are reported when the donated or acquired long-lived assets are placed in service.

CARDINAL HEALTH SYSTEM, INC. AND SUBSIDIARIES**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS****1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)***Temporarily and Permanently Restricted Net Assets*

Temporarily restricted net assets are those which use has been limited by donors to a specific time period or purpose. Permanently restricted net assets have been restricted by donors to be maintained by the Corporation in perpetuity.

Excess (Deficiency) of Revenues, Gains, and Other Support Over Expenses

The statement of operations includes the excess (deficiency) of revenues, gains, and other support over expenses. Changes in unrestricted net assets which are excluded from the excess of revenues, gains, and other support over expenses, consistent with industry practices, include permanent transfers of assets to and from affiliates for other than goods or services, and contributions of long-lived assets including assets acquired using contributions which, by donor restriction, were to be used for the purpose of acquiring such assets.

Donor Restricted Gifts

Unconditional promises to give cash and other assets are reported at fair value at the date the promise is received. Conditional promises to give and indications of intentions to give are reported at fair value at the date the gift is received. The gifts are reported as either temporarily or permanently restricted support if they are received with donor stipulations that limit the use of the donated assets. Donor restricted contributions, for which restrictions are met within the same year as received, are reported as unrestricted contributions in the accompanying financial statements.

Deferred Bond Issue Costs

Deferred bond issue costs are amortized on the straight-line method over periods ranging from 17.5 to 25 years.

Disclosures of Accounting Policy

For purposes of the statement of cash flows, the Corporations consider all demand deposit accounts and cash on hand to be cash equivalents.

Disclosure about Fair Value of Financial Instruments

In accordance with *FASB Statement No. 107, Disclosures about Fair Value of Financial Instruments*, the consolidated financial statements include information about the estimated fair value of financial instruments. The estimated fair values have been determined using available market information and appropriate available methodologies; however, considerable judgment is required to interpret market data to develop the estimates of fair value. Accordingly, the estimates presented herein are not necessarily indicative of the amounts that could be realized in a current market exchange. The use of different market assumptions or estimation methodologies may produce different results and affect the estimated fair value amounts.

CARDINAL HEALTH SYSTEM, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

2. INVESTMENTS

Investments are summarized as follows:

	June 30, 2007			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Market Value
Assets Limited as to Use:				
Note Retirement Funds				
Cash	\$ 433,653			\$ 433,653
Money market accounts	7,181,648			7,181,648
U.S. government and agency securities	41,723,417	\$ 374,717	\$ 10,343	42,087,791
U.S. Treasury money market funds	1,078,268			1,078,268
Total	\$ 50,416,986	\$ 374,717	\$ 10,343	\$ 50,781,360
Board Designated Fund				
Cash and cash equivalents	\$ 1,042,273			\$ 1,042,273
Money market accounts	3,583,036			3,583,036
Common stock	5,606,181	\$ 1,054,727	\$ 30,285	6,630,623
Corporate bonds	12,616,861	65,889	163,777	12,518,973
Mutual funds	654,000	72,492		726,492
U.S. government and agency securities	14,395,710	185,995	219,096	14,362,609
U.S. Treasury money market funds	1,423			1,423
Total	\$ 37,899,484	\$ 1,379,103	\$ 413,158	\$ 38,865,429
Total	\$ 88,316,470	\$ 1,753,820	\$ 423,501	\$ 89,646,789
Donor Restricted Assets:				
Specific Trust Funds				
Common stock	\$ 8,619,176	\$ 950,333	\$ 133,461	\$ 9,436,048
Corporate bonds	1,767,604	858	58,432	1,710,030
U.S. government securities	2,062,414	3,654	22,317	2,043,751
Mutual funds	4,194,412	171,799	13,543	4,352,668
Mortgage-backed securities	475,556		19,114	456,442
Cash and cash equivalents	382,632			382,632
Total	\$ 17,501,794	\$ 1,126,644	\$ 246,867	\$ 18,381,571
Unrestricted Investments:				
Common stock	\$ 10,070,078	\$ 1,114,103	\$ 155,057	\$ 11,029,124
Corporate bonds	2,612,877	987	80,266	2,533,598
U.S. government securities	3,492,665	6,940	35,892	3,463,713
Mutual funds	4,829,561	197,815	15,593	5,011,783
Mortgage-backed securities	638,553		23,551	615,002
Cash and cash equivalents	440,572			440,572
Total	\$ 22,084,306	\$ 1,319,845	\$ 310,359	\$ 23,093,792

CARDINAL HEALTH SYSTEM, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

2. INVESTMENTS (continued)

Investments are summarized as follows:

	June 30, 2006			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Market Value
Assets Limited as to Use:				
Note Retirement Funds				
Cash	\$ 468,666			\$ 468,666
Money market accounts	112,890			112,890
Corporate bonds	6,826,250			6,826,250
U.S. government and agency securities	59,531,743	\$ 41,202	\$ 134,693	59,438,252
U.S. Treasury money market funds	1,067,582			1,067,582
Total	\$ 68,007,131	\$ 41,202	\$ 134,693	\$ 67,913,640
Board Designated Fund				
Cash and cash equivalents	\$ 1,046,340			\$ 1,046,340
Money market accounts	8,225,362			8,225,362
Common stock	5,517,341	\$ 756,389	\$ 120,517	6,153,213
Corporate bonds	9,174,284	122,106	171,405	9,124,985
Mutual funds	674,136	41,818		715,954
U.S. government and agency securities	15,550,717	200,318	464,287	15,286,748
U.S. Treasury money market funds	466			466
Mortgage-backed securities	236,754		9,781	226,973
Total	\$ 40,425,400	\$ 1,120,631	\$ 765,990	\$ 40,780,041
Total	\$ 108,432,531	\$ 1,161,833	\$ 900,683	\$ 108,693,681
Donor Restricted Assets:				
Specific Trust Funds				
Common stock	\$ 9,498,784	\$ 907,822	\$ 277,195	\$ 10,129,411
Corporate bonds	1,985,627	2,246	85,927	1,901,946
U.S. government securities	2,727,897	5,675	43,489	2,690,083
Mutual funds	952,537	132,052	3,132	1,081,457
Mortgage-backed securities	505,102		24,443	480,659
Cash and cash equivalents	968,794			968,794
Total	\$ 16,638,741	\$ 1,047,795	\$ 434,186	\$ 17,252,350
Unrestricted Investments:				
Common stock	\$ 9,923,229	\$ 935,227	\$ 292,219	\$ 10,566,237
Corporate bonds	2,334,451	2,304	98,227	2,238,528
U.S. government securities	2,995,982	5,821	46,776	2,955,027
Mutual funds	976,902	135,428	3,209	1,109,121
Mortgage-backed securities	966,165	512	31,160	935,517
Cash and cash equivalents	1,087,695			1,087,695
Total	\$ 18,284,424	\$ 1,079,292	\$ 471,591	\$ 18,892,125

CARDINAL HEALTH SYSTEM, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

2. INVESTMENTS (continued)

Gross realized gains and gross realized losses on sales of securities were:

	June 30, 2007		
	Gains	Losses	Net
U.S. government securities	\$ 97,851	\$ (110,282)	\$ (12,431)
Common stock	3,590,665	(838,190)	2,752,475
Corporate bonds	75,821	(24,830)	50,991
Mutual funds	187,467	(23,092)	164,375
	<u>\$ 3,951,804</u>	<u>\$ (996,394)</u>	<u>\$ 2,955,410</u>
	June 30, 2006		
	Gains	Losses	Net
U.S. government securities	\$ 46,158	\$ (63,539)	\$ (17,381)
Common stock	3,867,687	(855,437)	3,012,250
Corporate bonds	24,805	(54,506)	(29,701)
Mutual funds	344,145	(16,272)	327,873
	<u>\$ 4,282,795</u>	<u>\$ (991,348)</u>	<u>\$ 3,291,447</u>

Expenses related to investing activities totaled \$192,774 and \$189,416 for the years ended June 30, 2007 and 2006, respectively. Other investments are as follows:

	Investment	Accumulated Earnings Net of Distributions	Balance
June 30, 2007			
Laboratory services	\$ 853,707	\$ 3,982,407	\$ 4,836,114
Eye Center Group	4,931,362	(4,931,362)	0
Health Maintenance Organization	561,250	2,683,006	3,244,256
Surgicenter	187,500	2,323,119	2,510,619
Radiology	442,183	389,048	831,231
Randolph County Hospital	2,505,757	(96,717)	2,409,040
Surgery Center	2,112,175	79,990	2,192,165
Other	3,738,608	(735,500)	3,003,108
			<u>\$ 19,026,533</u>
June 30, 2006			
Laboratory services	\$ 853,707	\$ 5,285,015	\$ 6,138,722
Eye Center Group	4,931,362	(4,655,105)	276,257
Health Maintenance Organization	579,400	2,442,703	3,022,103
Surgicenter	187,500	3,107,831	3,295,331
Radiology	442,183	497,872	940,055
Randolph County Hospital	2,505,757	(174,417)	2,331,340
Surgery Center	2,112,175	214,303	2,326,478
Other	3,163,448	372,677	3,536,125
			<u>\$ 21,866,411</u>

CARDINAL HEALTH SYSTEM, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

3. LONG-TERM DEBT

Cardinal Health System, Inc.

Series 1991: Long-term debt included a Series 1991 note dated August 1, 1991, payable to the Hospital Authority of Delaware County (Authority) in the original principal sum of \$21,520,000. Interest at 6.625% was payable semi-annually. The note was issued under and secured by a loan agreement dated as of August 1, 1991, between Ball Memorial Hospital, Inc. and the Authority. As of August 1, 1991, and in conjunction with this financing, the Authority entered into a trust agreement with Old National Trust, Muncie, Indiana, Trustee, who acts for the benefit of the holders of the bonds issued by the Authority. The trust indenture requires the trustee to establish and maintain a Debt Service Reserve Fund which shall be used by the trustee to make up any deficiencies in funds available for any principal and interest payments. In December 1997, Cardinal Health System, Inc. advance refunded the bonds in the amount of \$20,600,000 by issuing Series 1997 bonds. As of June 30, 2007, \$13,800,000 of the advance refunded bonds, which are considered extinguished, remains outstanding.

Series 1997: Long-term debt included a Series 1997 note dated December 1, 1997, payable to the Hospital Authority of Delaware County (Authority) in the original principal sum of \$22,670,000. Interest at rates ranging from 3.9% to 5.5% is payable semi-annually. The note was issued under and secured by a loan agreement dated as of December 1, 1997, between Cardinal Health System, Inc. and the Authority. As of December 1, 1997, and in conjunction with this financing, the Authority entered into a trust agreement with The Bank of New York, Indianapolis, Indiana, Trustee, who acts for the benefit of the holders of the bonds issued by the Authority. The trust indenture requires the trustee to establish and maintain a Debt Service Reserve Fund which shall be used by the trustee to make up any deficiencies in funds available for any principal and interest payments. The trust indenture requires the obligated group satisfy certain measures of financial performance as long as the notes are outstanding. The note balance at June 30, 2007 and 2006, was \$14,475,000 and \$15,605,000, respectively. The note requires mandatory redemption starting in 1998 with the final payment due in 2016.

The notes are also subject to optional redemption prior to maturity as follows:

The notes maturing on or after August 1, 2009, are subject to redemption by the Authority at the direction of the obligated group (upon the simultaneous prepayment of a like principal amount of the Series 1997 note), prior to their stated maturity on or after August 1, 2008, in whole or in part at any time, in any order of maturity selected by the obligated group, by lot within a maturity in such manner as the Bond Trustee may determine, at the redemption prices (expressed as percentages of the principal amount of notes so redeemed) set forth below, together with interest accrued on the principal amount to be redeemed to the date fixed for redemption:

Redemption Dates (Inclusive)	Redemption Price
August 1, 2008, through July 31, 2009	102%
August 1, 2009, through July 31, 2010	101%
August 1, 2010, and thereafter	100%

CARDINAL HEALTH SYSTEM, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

3. **LONG-TERM DEBT** (continued)

Series 1998: Long-term debt included a Series 1998 note dated March 1, 1998, payable to the Hospital Authority of Delaware County (Authority) in the original principal sum of \$45,000,000. Interest at variable rates is payable monthly. The note was issued under and secured by a loan agreement dated as of March 1, 1998, between Cardinal Health System, Inc. and the Authority. As of March 1, 1998, and in conjunction with this financing, the Authority entered into a trust agreement with The Bank of New York, Indianapolis, Indiana, Trustee, who acts for the benefit of the holders of the bonds issued by the Authority. The trust indenture requires the trustee to establish and maintain a Debt Service Reserve Fund which shall be used by the trustee to make up any deficiencies in funds available for any principal and interest payments. The trust indenture requires the obligated group satisfy certain measures of financial performance as long as the notes are outstanding. The note balance at June 30, 2007 and 2006, was \$33,500,000 and \$36,900,000, respectively, and the interest rate was 3.80% at June 30, 2007. The note requires mandatory redemption with the final payment due in 2019. The notes are also subject to optional redemption prior to maturity.

Series 2006: Long-term debt included a Series 2006 note dated May 1, 2006, payable to the Hospital Authority of Delaware County (Authority) in the original principal sum of \$78,565,000. Interest at rates ranging from 5.00% to 5.25% is payable semi-annually. The note was issued under and secured by a loan agreement dated as of May 1, 2006, between Cardinal Health System, Inc. and the Authority. As of May 1, 2006, and in conjunction with this financing, the Authority entered into a trust agreement with Old National Trust Company, Muncie, Indiana, Trustee, who acts for the benefit of the holders of the bonds issued by the Authority. The trust indenture requires the trustee to establish and maintain a Debt Service Reserve Fund which shall be used by the trustee to make up any deficiencies in funds available for any principal and interest payments. The trust indenture requires the obligated group satisfy certain measures of financial performance as long as the notes are outstanding. The note is secured by the property and revenue stream of the obligated group. The note balance at June 30, 2007 and 2006, was \$78,565,000. The note requires mandatory redemption with the final payment due in 2036. The notes are also subject to optional redemption prior to maturity.

Capital Lease Obligations

Ball Memorial Hospital, Inc.

The Hospital is obligated under numerous capital leases. At June 30, 2007, the combined monthly payments totaled \$153,500 and the interest rates ranged from 3.215% to 5.005%. The capital lease balance at June 30, 2007 and 2006, totaled \$4,124,420 and \$1,920,121, respectively.

Mortgage and Other Loans Payable

Cardinal Health System, Inc.

A fixed rate mortgage is payable to Mutual Federal Savings Bank, Muncie, Indiana. The loan is secured by real estate with a book value of \$365,000, bears interest at 7.25%, and requires monthly payments of \$3,320. The loan balance at June 30, 2007 and 2006, was \$198,938 and \$238,782, respectively.

CARDINAL HEALTH SYSTEM, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

3. LONG-TERM DEBT (continued)

Ball Memorial Hospital, Inc.

A fixed rate mortgage is payable to Old National Bank, Muncie, Indiana. The loan is secured by real estate with a book value of \$4,751,000, bears interest at 6.24%, and requires monthly payments of \$11,300. The loan balance at June 30, 2007 and 2006, was \$1,641,284 and \$1,668,105, respectively.

The BMH Foundation, Inc.

A fixed rate mortgage is payable to Old National Bank, Muncie, Indiana. The mortgage is secured by property consisting of land with a book value of \$270,396 and a building with a book value of \$2,282,175. The balance at June 30, 2007 and 2006, was \$1,939,452 and \$1,991,909, respectively. The mortgage bears interest at 6.42% and requires monthly payments of \$14,930.

Blackford Community Hospital, Inc.

A variable rate note agreement was obtained on April 22, 2003, for \$12,500,000 from the Indiana Health Facility Financing Authority Revolving Loan Pool, Series 1985 A. The terms of the agreement provide for amortization of the balance over nine years with monthly payments of principal and interest. Interest is calculated using a variable rate which changes monthly. The rate at June 30, 2007, was 7.00% and the balance outstanding at June 30, 2007 and 2006, was \$8,963,078 and \$10,165,525, respectively.

Summary of Long-Term Debt

The minimum annual principal payments required for long-term debt at June 30, 2007, are as follows:

Year Ended June 30,	Amount
2008	\$ 6,474,909
2009	6,672,879
2010	5,742,510
2011	5,547,689
2012	5,837,455
Thereafter	113,131,730
	<u>\$ 143,407,172</u>

Interest incurred on borrowed funds for 2007 and 2006 totaled \$5,778,666 and \$2,882,447, respectively. During 2007, \$1,016,973 of interest was capitalized in construction in progress.

CARDINAL HEALTH SYSTEM, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

4. LEASE OBLIGATIONS

Cardinal Health System, Inc. and its subsidiaries lease various equipment and real estate under operating leases that primarily do not extend beyond one year.

The total rental expense for 2007 and 2006 was \$6,749,516 and \$6,075,574, respectively.

Cardinal Health Partners, LLC sub-leases various real estate and received \$223,257, and \$225,516 for the years ended June 30, 2007 and 2006, respectively.

5. INCOME TAXES

The not-for-profit corporations are not considered to be private foundations within the meaning of *Internal Revenue Code Section 509(a)(3)* and are exempt from federal income tax under the provisions of *Internal Revenue Code Section 501(c)(3)*. The components of federal and state income tax (credit) expense for the for-profit corporation is included as other operating expenses in the consolidated statement of operations as follows:

	2007	2006
Current Provision (credit)		
State	\$ (680,101)	\$ (7,486)
Federal	(2,885,126)	(11,874)
	<u>\$ (3,565,227)</u>	<u>\$ (19,360)</u>

Net income tax refunds included in Accounts Receivable, Other in the consolidated balance sheet consist of the following:

State	\$ (163,608)	\$ (566)
Federal	(553,142)	(7,826)
	<u>\$ (716,750)</u>	<u>\$ (8,392)</u>

6. RETIREMENT PLAN

Cardinal Health System, Inc. and certain subsidiaries have a noncontributory pension plan that covers substantially all full-time employees meeting certain eligibility requirements. The Corporations' policy is to fund the plan on a current basis in amounts sufficient to satisfy *ERISA* funding requirements. The Corporation also provides certain retired employees with postretirement health care benefits.

CARDINAL HEALTH SYSTEM, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

6. RETIREMENT PLAN (continued)

The annual measurement date is March 31, 2007. The following tables provide information about changes in the benefit obligation and plan assets and the funded status of the Corporations' pension and postretirement benefit plans:

Obligations and Funded Status	Pension Benefits		Retirement Benefits	
	2007	2006	2007	2006
Benefit Obligation at March 31	\$ 182,523,088	\$ 146,466,385	\$ 3,225,851	\$ 6,388,321
Employer contributions	\$ 5,967,633	\$ 5,487,732		
Participant contributions				
Benefit payments	\$ 4,791,752	\$ 4,024,122		
Fair value of plan assets at March 31	\$ 146,471,295	\$ 139,457,301		
Net unfunded status of the plan	\$ 36,051,793	\$ 7,009,084	\$ 3,225,851	\$ 6,388,321

Amounts recognized in the balance sheet consist of:

Other liabilities	<u>\$ 36,051,793</u>	<u>\$ 7,009,084</u>	<u>\$ 3,225,851</u>	<u>\$ 6,388,321</u>
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The accumulated benefit obligation for the plan was \$159,630,529 and \$146,466,385 at March 31, 2007 and 2006, respectively.

CARDINAL HEALTH SYSTEM, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

6. RETIREMENT PLAN (continued)

Assumptions

Weighted average assumptions used in the accounting for the Corporations' pension and postretirement benefit plan were:

	Pension Benefits		Retirement Benefits	
	2007	2006	2007	2006
Weighted-average assumptions used to determine benefit obligations at March 31:				
Discount rate	5.68%	5.68%	5.68%	5.68%
Rate of compensation increase	3.00%	3.00%		
Weighted-average assumptions used to determine net periodic benefit cost for years ended March 31:				
Discount rate	5.68%	5.68%	5.68%	5.68%
Expected return on plan assets	8.00%	8.00%		
Rate of compensation increase	3.00%	3.00%		

The Corporations' expected rate of return on plan assets is determined by the plan assets' historical long-term investment performance, current asset allocation, and estimates of future long-term returns by asset class.

Plan Assets

The Corporations' pension plan weighted-average asset allocations at March 31, 2007 and 2006, by asset category are as follows:

	2007	2006
Fixed income securities	21%	24%
Common stocks	65%	70%
Other	14%	6%

CARDINAL HEALTH SYSTEM, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

6. RETIREMENT PLAN (continued)

Cash Flows

The Corporations' expect to contribute \$6,084,892 to the plan in fiscal year ending June 30, 2008.

The following benefit payments, which reflect expected future service, as appropriate, are expected to be paid:

<u>Fiscal Year Ended</u>	<u>Amount</u>
6/30/2008	\$ 4,885,966
6/30/2009	5,268,346
6/30/2010	5,755,895
6/30/2011	6,360,607
6/30/2012	7,079,832
6/30/2013 - 6/30/2017	<u>50,333,097</u>
Total	<u>\$ 79,683,743</u>

7. LEASING ARRANGEMENTS

The Foundation has a real estate lease agreement with a physician group for a term of three years ending on June 30, 2009. The lease contains an option to renew. The lease payment is \$19,322 per month due on the first day of each month, or \$231,864 for the years ended June 30, 2008 and 2009. The Foundation is responsible for insurance, property taxes, maintenance and repairs.

The cost and carrying amount of the properties subject to the above leasing agreement follows:

Land	\$ 256,650
Buildings	<u>4,797,099</u>
	\$ 5,053,749
Less accumulated depreciation	<u>(1,332,518)</u>
Net book value	<u>\$ 3,721,231</u>

Rental revenue for the years ended June 30, 2007 and 2006, totaled \$307,844 and \$410,532, respectively.

CARDINAL HEALTH SYSTEM, INC. AND SUBSIDIARIES**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS****8. COMMITMENTS AND CONTINGENCIES**

Cardinal Health System, Inc. is obligated on various contracts for remodeling and the purchase of equipment in the normal course of business. At June 30, 2007, Cardinal Health System, Inc. was committed to the construction of a hospital building addition with an estimated cost of \$60,000,000.

Cardinal Health System, Inc. has made working capital and line-of-credit loans available to various physicians. The loans include provisions for non-repayment of the loan when certain events occur.

The allowance for contractual adjustments of \$51,935,813 at June 30, 2007, represents the estimated amount which will be withheld by the intermediary on payment of Medicare and Medicaid patients' receivables. This allowance is a current valuation and is not related to any amount which may be payable to or recoverable from the intermediary upon final settlement of the cost reports for the years ended June 30, 2007 and 2006.

9. SIGNIFICANT GROUP CONCENTRATIONS OF CREDIT RISK

The consolidated group had funds deposited in banks that exceeded the Federal Deposit Insurance Corporation insured limit by \$14,360,137 at June 30, 2007.

10. FAIR VALUE OF FINANCIAL INSTRUMENTS

The following methods and assumptions were used in estimating the fair value of financial instruments:

Cash and Cash Equivalents

The carrying amount reported in the balance sheet for cash and cash equivalents approximates its fair value.

Accounts and Notes Receivable

The carrying amount reported in the balance sheet for accounts receivable and notes receivable approximates fair value.

CARDINAL HEALTH SYSTEM, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

10. FAIR VALUE OF FINANCIAL INSTRUMENTS (continued)

Investments

Fair values of investments are based on quoted market prices, if available, or estimated using quoted market prices for similar securities.

Accounts Payable and Accrued Expenses

The carrying amount reported in the balance sheet for accounts payable and accrued expenses approximates fair value.

Long-Term Debt

Fair values of long-term debt are estimated using discounted cash flow analyses, based on current incremental borrowing rates for similar types of borrowing arrangements.

The carrying amounts and fair values of the financial instruments are as follows:

	Carrying Amount	Fair Value
June 30, 2007		
Cash and cash equivalents	\$ 8,575,294	\$ 8,575,294
Accounts receivable	49,229,714	49,229,714
Long-term investments	131,122,152	131,122,152
Accounts payable and accrued expenses	43,562,623	43,562,623
Long-term debt	143,407,172	132,901,431
June 30, 2006		
Cash and cash equivalents	\$ 7,638,217	\$ 7,638,217
Accounts receivable	53,886,143	53,886,143
Short-term investments	1,350	1,350
Long-term investments	144,838,156	144,838,156
Accounts payable and accrued expenses	39,669,592	39,669,592
Long-term debt	147,054,442	136,075,446

CARDINAL HEALTH SYSTEM, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

11. FUNCTIONAL EXPENSES

The Corporations provide general health care services to residents of East Central Indiana. Expenses of the not-for-profit entities related to providing these services are as follows:

	2007	2006
Health care services	\$ 275,213,629	\$ 266,848,169
General and administrative	60,617,871	57,535,087
Fund raising	49,335	68,839
	<u>\$ 335,880,835</u>	<u>\$ 324,452,095</u>

12. RESTRICTIONS ON ASSETS

Temporarily restricted net assets at June 30, 2007, are for advancing medical education throughout the community, purchasing medical equipment for certain departments within related organizations, and to help provide funds for the medical care of needy citizens within East Central Indiana.

Permanently restricted net assets consist of endowment fund investments to be held indefinitely, the income from which is expendable.

**INDEPENDENT AUDITORS' REPORT
ON SUPPLEMENTAL INFORMATION**

Board of Directors
Cardinal Health System, Inc.
Muncie, Indiana

Our audits were made for the purpose of forming an opinion on the basic consolidated financial statements taken as a whole. The supplemental information on pages 25 through 27 is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic consolidated financial statements and, in our opinion, the information is fairly stated in all material respects in relation to the basic consolidated financial statements taken as a whole.

Whitinger & Company LLC

Certified Public Accountants

November 13, 2007

CARDINAL HEALTH SYSTEM, INC. AND SUBSIDIARIES
CONSOLIDATING BALANCE SHEET
 JUNE 30, 2007

	Cardinal Health System Inc.	Ball Memorial Hospital Inc.	Health Care Connections, Inc.	Ball Memorial Hospital Auxiliary Inc.	Blackford Community Hospital Inc.	BMH Outpatient Surgery Services, LLC	E.L.S. Inc.	The BMH Foundation Inc.	Midwest Health-Surgery Inc.	Total	Cardinal Health Ventures Inc.	Cardinal Partners, LLC	Cardinal Care, LLC	CHS Community Network, LLC	1st Call Home Hospice, LLC	CHS Health Initiatives LLC	Cardinal Health Choice Co. SPC, Ltd.	Cardinal Select Risk Group, Inc.	Eliminations	Consolidated Total
ASSETS																				
CURRENT ASSETS																				
Cash	\$ 1,887,726	\$ 100,377,213	\$ 23,170	\$ 63,316	\$ 808,948	\$ 1,187,836	\$ 10,170	\$ 214,366	\$ 1,004,624	\$ 5,590,196	\$ 2,726	\$ 313,661	\$ 898	\$ 617,020	\$ 23,308	\$ 1,403,903	\$ 872,595	\$ 51,987	\$ 8,575,294	\$ 8,575,294
Accounts receivable, patients					\$ 4,987,707	\$ 873,098	\$ 617,509		\$ 4,669,904	\$ 111,857,438		\$ 1,594,187		\$ 2,265,748					\$ 115,631,373	\$ 115,631,373
Accounts receivable, other																				
Prepaid expenses																				
Investments																				
Other																				
PROPERTY AND EQUIPMENT																				
Buildings and grounds	\$ 70,000	\$ 9,918,021			\$ 430,959	\$ 1,371,998		\$ 18,025,485		\$ 11,812,978		\$ 46,311		\$ 206,190					\$ 11,812,978	\$ 11,812,978
Equipment	\$ 3,923,748	\$ 169,114,143	\$ 79,736	\$ 26,906	\$ 14,800,735	\$ 1,076,611	\$ 224,912	\$ 90,742	\$ 4,724,713	\$ 154,080,787	\$ 176,144	\$ 642,569	\$ 5,761	\$ 247,684					\$ 155,111,451	\$ 155,111,451
Construction in progress	\$ 4,897,084	\$ 98,360,307			\$ 3,599,776				\$ 3,204	\$ 32,794,856		\$ 49,687		\$ 433,684					\$ 33,092,221	\$ 33,092,221
Leasehold improvements	\$ 54,370,810	\$ 305,704,085	\$ 79,736	\$ 26,906	\$ 18,854,470	\$ 1,076,611	\$ 224,912	\$ 19,490,235	\$ 4,727,917	\$ 404,555,732	\$ 176,144	\$ 738,587	\$ 5,761	\$ 247,684					\$ 408,920,271	\$ 408,920,271
Less accumulated depreciation	\$ (38,699,657)	\$ (138,463,681)	\$ (11,525)	\$ (3,157)	\$ (3,487,484)	\$ (174,678)	\$ (224,412)	\$ (5,547)	\$ (2,543,679)	\$ (13,869,407)	\$ (12,117)	\$ (598,686)	\$ (5,631)	\$ (46,140)					\$ (208,829,323)	\$ (208,829,323)
Net Property and Equipment	\$ 13,971,208	\$ 171,240,408	\$ 68,211	\$ 3,157	\$ 15,366,986	\$ 902,923	\$ 4,500	\$ 14,940,693	\$ 2,184,111	\$ 198,997,200	\$ 124,117	\$ 598,686	\$ 5,631	\$ 46,140					\$ 197,100,755	\$ 197,100,755
ASSETS LIMITED AS TO USE																				
Investments at market	\$ 50,781,360									\$ 50,781,360									\$ 50,781,360	\$ 50,781,360
Notes receivable	\$ 38,865,429									\$ 38,865,429									\$ 38,865,429	\$ 38,865,429
Other	\$ 89,646,789									\$ 89,646,789									\$ 89,646,789	\$ 89,646,789
DONOR RESTRICTED ASSETS																				
Unrestricted investments																				
Other	\$ 134,250									\$ 134,250									\$ 134,250	\$ 134,250
Investment in VHA stock, at cost	\$ 3,464,168	\$ 1,535,869	\$ 17,748		\$ 97,866					\$ 5,116,248		\$ 4,651,822		\$ 1					\$ 9,768,072	\$ 9,768,072
Investment in subsidiary																				
Investment in BMH Foundation assets																				
Investments in joint ventures																				
Notes receivable																				
Deferred bond issue costs - net of amortization of \$711,725																				
Other																				
Goodwill																				
Total Other	\$ 10,871,639	\$ 17,234,375	\$ 203,528	\$ 277,866	\$ 180,000			\$ 5,496		\$ 28,592,904	\$ 11,328,951	\$ 4,651,822		\$ 1					\$ 44,253,072	\$ 44,253,072
Total Assets	\$ 157,355,881	\$ 312,154,789	\$ 775,918	\$ 1,555,626	\$ 19,850,485	\$ 3,394,590	\$ 302,899	\$ 54,526,699	\$ 22,291,621	\$ 570,808,308	\$ 21,301,954	\$ 6,586,635	\$ 6,519	\$ 11,130,588	\$ 23,308	\$ 2,230,190	\$ 3,342,727	\$ 1,383,344	\$ 616,813,572	\$ 616,813,572
																			\$ 186,033,945	\$ 186,033,945
																			\$ 23,076,630	\$ 23,076,630
																			\$ 2,445,836	\$ 2,445,836
																			\$ 1,284,342	\$ 1,284,342
																			\$ 80,000	\$ 80,000
																			\$ 21,497,221	\$ 21,497,221
																			\$ 49,036,403	\$ 49,036,403
																			\$ 5,496	\$ 5,496
																			\$ 2,445,836	\$ 2,445,836
																			\$ 1,284,342	\$ 1,284,342
																			\$ 80,000	\$ 80,000
																			\$ 21,497,221	\$ 21,497,221
																			\$ 49,036,403	\$ 49,036,403
																			\$ 5,496	\$ 5,496
																			\$ 2,445,836	\$ 2,445,836
																			\$ 1,284,342	\$ 1,284,342
																			\$ 80,000	\$ 80,000
																			\$ 21,497,221	\$ 21,497,221
																			\$ 49,036,403	\$ 49,036,403
																			\$ 5,496	\$ 5,496
																			\$ 2,445,836	\$ 2,445,836
																			\$ 1,284,342	\$ 1,284,342
																			\$ 80,000	\$ 80,000
																			\$ 21,497,221	\$ 21,497,221
																			\$ 49,036,403	\$ 49,036,403
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																			\$ 21,497,221	\$ 21,497,221
																			\$ 49,036,403	\$ 49,036,403
																			\$ 5,496	\$ 5,496
																			\$ 2,445,836	\$ 2,445,836
																			\$ 1,284,342	\$ 1,284,342
																			\$ 80,000	\$ 80,000

CARDINAL HEALTH SYSTEM, INC. AND SUBSIDIARIES
CONSOLIDATING STATEMENT OF OPERATIONS
 FOR THE YEAR ENDED JUNE 30, 2007

	Corporate Unit	Cardinal Health System, Inc.	Midwest Health Strategies, Inc.	CHS Health Initiatives, LLC	CHS Community Pharmacy Network, LLC	CHS Choice Insurance Co. SFC, Ltd.	CHS Select Risk Retention Group, Inc.	Consolidated Total	Eliminations	Total
UNRESTRICTED REVENUES, GAINS, AND OTHER SUPPORT										
Net patient service revenue	\$ 259,208,023	\$ 1,587,546	\$ 15,778,482	\$ 10,290,670	\$ 617,469	\$ 11,355,924	\$ 298,838,114	\$ 89,115	\$ 10,444,094	\$ 334,163,297
Other operating revenue	\$ 1,552,364	\$ 7,818,516	\$ 2,586,807	\$ 165,160	\$ 81,807	\$ 6,516,041	\$ 6,752,265	\$ 2,495,480	\$ 2,154,899	\$ 31,519,485
Total Revenues, Gains, and Other Support	\$ 1,552,364	\$ 267,046,559	\$ 4,174,353	\$ 165,160	\$ 15,860,280	\$ 10,290,670	\$ 324,334,094	\$ 2,244,014	\$ 10,624,169	\$ 365,683,782
EXPENSES										
Salaries and wages	\$ 9,750,631	\$ 83,798,862	\$ 3,410,335	\$ 59,798	\$ 4,217,319	\$ 1,821,195	\$ 111,240,099	\$ 1,165,935	\$ 8,059,524	\$ 124,819,828
Medical supplies	\$ 18,010,172	\$ 104,575,465	\$ 3,962,025	\$ 178,543	\$ 60,835	\$ 2,328,238	\$ 34,983,981	\$ 2,410,423	\$ 1,456,823	\$ 167,684,707
Other operating expenses	\$ 18,496,219	\$ 104,493,921	\$ 3,777,447	\$ 178,687	\$ 6,002,264	\$ 5,110,279	\$ 14,871,715	\$ 705,013	\$ 732,815	\$ 26,004,072
Depreciation	\$ 3,849,590	\$ 12,204,921	\$ 8,538	\$ 3,229	\$ 1,389,645	\$ 172,618	\$ 19,753,894	\$ 29,213	\$ 93,428	\$ 19,901,905
Bad debts	\$ 14,463,499	\$ 1,443,371	\$ 2,061	\$ 327,280	\$ 1,443,371	\$ 22,152,070	\$ 22,152,070	\$ 5,778,666	\$ 5,778,666	\$ 22,152,070
Interest	\$ 2,011,289	\$ 3,209,966	\$ 425,672			\$ 131,739	\$ 5,912,539			\$ 5,778,666
Total Expenses	\$ 60,284,741	\$ 225,109,890	\$ 3,972,545	\$ 248,218	\$ 14,237,106	\$ 7,896,680	\$ 335,880,835	\$ 1,975,571	\$ 12,567,199	\$ 376,116,747
EXCESS (DEFICIENCY) OF REVENUES, GAINS, AND OTHER SUPPORT OVER EXPENSES	\$ (48,732,377)	\$ 41,936,669	\$ 241,808	\$ (83,158)	\$ 1,623,183	\$ 2,393,990	\$ (11,546,741)	\$ 271,443	\$ (1,743,030)	\$ (10,433,965)
CHANGE IN NET UNREALIZED GAINS ON INVESTMENTS	1,295,211					649,864	1,945,075			1,945,075
OTHER INCOME AND EXPENSE - NET	3,896,654	14,171,951	(272,633)	9,376	(1,247,676)	40,975	17,887,402	1,333,401	76,909	19,426,141
INCREASE (DECREASE) IN NET ASSETS BEFORE CORPORATE ALLOCATION	\$ (53,534,512)	\$ 56,108,620	\$ (30,625)	\$ (73,782)	\$ 1,623,183	\$ 2,434,965	\$ 8,285,736	\$ 1,604,844	\$ (1,666,121)	\$ 10,937,251
CORPORATE ALLOCATION	\$ 1,295,215	\$ 8,231,599	\$ (925,449)	\$ (73,782)	\$ (123,893)	\$ 2,434,965	\$ 12,602,642	\$ 1,151,420	\$ (4,328,748)	\$ 797,085
INCREASE (DECREASE) IN NET ASSETS BEFORE MINORITY INTEREST	\$ 1,295,215	\$ 8,231,599	\$ (925,449)	\$ (73,782)	\$ (123,893)	\$ 2,434,965	\$ 12,602,642	\$ 1,151,420	\$ (4,328,748)	\$ 797,085
SHARE OF INCOME (LOSS) FROM SUBSIDIARIES	\$ 1,260,591	\$ 2,472,490	\$ (272,633)	\$ 58,933			\$ 3,519,381	\$ (2,445,533)	\$ (276,763)	\$ 797,085
CONSOLIDATED INCREASE (DECREASE) IN NET ASSETS BEFORE MINORITY INTEREST	\$ 34,624	\$ 5,761,109	\$ (652,916)	\$ (73,782)	\$ (182,826)	\$ 2,434,965	\$ 9,083,261	\$ 3,596,953	\$ (4,051,985)	\$ 10,140,166
MINORITY INTEREST							\$ 541,506			\$ (481,129)
CONSOLIDATED NET INCREASE (DECREASE) IN NET ASSETS	\$ 34,624	\$ 5,761,109	\$ (652,916)	\$ (73,782)	\$ (182,826)	\$ 1,412,280	\$ 8,602,082	\$ 3,596,953	\$ (4,051,985)	\$ 9,658,987

See Independent Auditors' Report on Supplemental Information.